Successful lenders understand how to position themselves in an increasingly competitive marketplace to obtain a sustainable competitive advantage. They thoroughly understand their customers’ business and work to stay ahead of commercial producers who are striving to remain profitable in a global agricultural industry.

To help lenders gauge their understanding of this constantly changing customer base, Purdue University’s Center for Food and Agricultural Business conducts the Large Commercial Producer Survey every five years. In early 2008, about 2,500 producers, categorized by operation size (See Table), from across the United States completed the survey, which explores how their farm business is changing and what they want from their lenders.

Choosing a Lender
The survey asked producers to determine the relative importance of various drivers when choosing a lender by assigning percentage points to the following:

| TABLE: PHYSICAL UNITS DEFINING MID-SIZE, COMMERCIAL AND LARGE ENTERPRISES |
|-------------------------------|------------------|------------------|------------------|
| FARM TYPE                      | MID-SIZE         | COMMERCIAL       | LARGE            |
| Corn/soybeans (acres)          | 300–1,499        | 1,500+           | 4,600+           |
| Wheat/barley/canola (acres)    | 700–3,499        | 3,500+           | 9,000+           |
| Cotton (acres)                 | 200–1,099        | 1,100+           | 3,000+           |
| Dairy (cows milked/day)         | 40–199           | 200+             | 1,600+           |
| Finishing hogs (hd. marketed/yr.) | 800–3,999        | 4,000+           | 25,000+          |
| Feeder pigs (hd. marketed/yr.) | 3,300–16,499     | 16,500+          | 100,000+         |
| Finished cattle (hd. marketed/yr.) | 150–799        | 800+             | 3,000+           |
| Feeder/stocker cattle (hd. marketed/yr.) | 250–1,249     | 1,250+           | 20,000+          |

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Survey continued from page 1

In general, producers ranked price and convenience/location the highest in importance, with customer service ranked third, followed by product performance and support service ranked almost equally. Price and convenience/location factors together account for almost 50 percent of the drivers.

Drivers influencing the choice of lenders do not vary much by operation size; however, price is slightly more important for large farms and convenience/location is more important for smaller farms (See Figure 1).

As to age, those under 35 care more about product performance, customer service and support service compared to those that are 35 and older (See Figure 2). High-growth producers (those expecting to grow more than 50 percent in size over the next five years) care less about price and convenience/location, but more about support service compared to those growing less rapidly (See Figure 3).

All Lenders Are Not Created Equal

Producers also indicated whether they perceived lenders as more or less the same in the provision of financial products and lending services.

In general, producers perceive important differences in lenders, as reflected by 52.4 percent of the respondents disagreeing or strongly disagreeing with the statement that all lenders are more or less the same. This opinion was consistent and similar across all sizes. As to age, producers under 35 and those 65 and older disagree less with this statement. Finally, high-growth producers express less support of the statement that lenders are more or less the same.

Pricing and Price Differences

Producers were asked whether they usually borrow from the lender with the lowest interest rate. They did not express strong support for this price-buying behavior; however, large producers were more inclined to borrow from the lender with the lowest rate. Those under 35 years old were also more inclined to borrow from the lowest-priced lender. There is no trend among different growth operations as to this perception.

Producers generally perceive that there are significant price differences for similar financial products and services provided by traditional lenders. Large producers and producers under 35 years old perceive more price differences; in contrast, older producers generally do not see as much of a price difference among lenders. There is no trend among different growth operations as to this perception. In general, producers perceive that there are less price differences among different financial product/service providers than there are among suppliers of capital items, as well as animal production and agronomic inputs.

Loyalty to Lenders

Producers expressed strong loyalty to their lenders, with about 65 percent of the respondents either agreeing or strongly agreeing with the statement, “I consider myself loyal to my financial services provider.” This strong loyalty was expressed irrespective of size of farming operation. The 35–44 age group and the high-growth producers express the most agreement with this statement. Producers expressed less loyalty to their lender than to their supplier of capital items, but more loyalty to
their lender than to their suppliers of animal production and agronomic inputs.

What Lenders Can Do
While the survey results indicate that producers are loyal to their current lender, the marketplace continues to be increasingly competitive. Lenders will need to continue to work hard at understanding their customers and what pricing/service/information package various customers want.

Lenders can hear complete survey results and more implications at the National Conference for Agribusiness, set for Nov. 18–19, 2008, at Purdue University in West Lafayette, Ind. Purdue faculty and industry experts will identify strategies on how agribusinesses can capitalize on the results by exploring topics such as the changing characteristics of commercial producers, serving multiple market segments, branding, building value, channel management, servicing producers operating above the $750,000 mark, key account management and innovative customer solutions.

Farmland Values Continue Rising and Farmers Are Buying

Prices being paid for Illinois farmland continued an upward spiral as fewer farms have been available, and neighboring farmers have been the main buyers. This is according to a mid-year ‘snapshot’ survey among members of the Illinois Society of Professional Farm Managers and Rural Appraisers. The survey was conducted by the University of Illinois.

Survey respondents indicated that farmland values increased by an average of 9 percent during the first half of the year, says Gary Schnitkey, Ph. D., University of Illinois. Averages being paid were $7,350 for excellent quality farmland. This is up from $6,925 being paid in January of this year. July prices for good quality farmland averaged $6,630 ($6,013 in January); $5,590 for land rated as average quality ($4,975 in January); and $4,230 for fair quality land ($4,047 in January).

The trend is expected to continue upward, said Mac Boyd, AFM, ARA, president of the Illinois society. He noted that 63 percent of the survey respondents indicated the volume of farmland sold in the first half of the year had decreased from a year earlier.

Other buyers include individual or local investors (40 percent) and institutional, pension funds or investment pools (9 percent.)

Cash Rents to Rise
Cash rents are expected to increase by an average of $43 per acre between 2008 and 2009, according to the survey. “Overall, cash rents in 2008 averaged $238 on professionally managed farmland,” Swires said. “The average cash rent is expected to increase to $281 in 2009. Keep in mind, though, that cash rents can vary dramatically based on the productivity of the land.”

Eighty-four percent of those surveyed also expect flexible cash rental arrangements to increase in use. Less use is expected of share rental arrangements.

The mid-year survey is conducted annually by the Illinois society. This is in conjunction with its annual Farmland Values Survey. The 2009 survey will be conducted late in 2008.

Fed Reserve Reports Values
The Chicago Federal Reserve Seventh District’s report for the second quarter of 2008 showed a 15 percent land value increase relative to the second quarter of 2007 and a 3 percent increase relative to the first quarter of 2008. The survey of 202 agricultural bankers covered the period from April 1, 2008, through June 30, 2008.

Looking to the third-quarter as the second quarter came to a close, 35 percent more responding bankers expected farmland values to move up rather than down in the third quarter of 2008. The seventh district includes Iowa, Michigan, the majority of Wisconsin and the northern half of both Illinois and Indiana.

The upward momentum of corn and soybean prices has pulled up farmland values, since the expected stream of earnings from crop production multiplied.